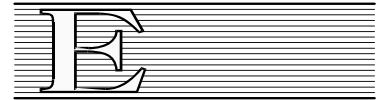




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Assessment of Progress on Regional Integration in Africa

A. Introduction

1. In July 2006, the African Union Summit of Heads of State, in Banjul, the Gambia, endorsed the repositioning of the Economic Commission for Africa (ECA) to better respond to the continent's priorities, particularly the agenda relating to regional integration. The Summit also reaffirmed the role of ECA as a key African institution to assist and facilitate the work of the African Union and the Regional Economic Communities (RECs) in advancing the development agenda on the continent.

2. ECA has been working on regional integration issues since its inception in 1958. It played a major part in the creation of some of the regional economic communities. However, in recent years, the priorities of the continent have changed with the transformation of the Organization of African Unity (OAU) to African Union (AU) and the adoption of the framework of the New Partnership for Africa's Development (NEPAD). In this regard, ECA has had to refocus and reposition its programmes and activities in order to better respond effectively to these strategic changes.

3. In the repositioned ECA, the promotion and strengthening of the continental regional integration agenda will be a central focus. In this regard, ECA will concentrate on fully supporting the African Union's efforts to accelerate the political and socio-economic integration of the continent, promote and defend African common positions and establish the necessary conditions to enable the continent to play its rightful role in the global economy. It will do so by promoting dialogue and undertaking analytical studies in the area of regional integration. In addition, it will seek to strengthen capacity and provide technical assistance to institutions driving the regional integration agenda, including the RECs, as well as increase its involvement in trans-boundary initiatives and activities in sectors vital to the regional integration agenda. Furthermore, in line with the Decisions of the Banjul Summit it will deepen its collaboration with the African Union Commission (AUC) and the African Development Bank (ADB) in all matters that advance the continental agenda on regional integration.

4. ECA strongly views regional integration as a crucial milieu for accelerating the economic, social, cultural and political development of African countries. Economic synergy could be gained from economic integration since the economic advantage of a whole regional community is greater than the sum of the economic advantage of its separate member States. The need for deeper economic integration on the continent is also propelled by a new world economic order, with the formation of regional blocks across continents, borderless globalization, advances in information and communication technology and multilateral trade negotiations under the World Trade Organization (WTO) among others. Furthermore, enlargement of national markets and harmonization of regulatory frameworks will help create an environment conducive to profitability of investments in the continent.

5. The purpose of this note is to provide the *Conference of African Ministers of Finance, Planning and Economic Development* a progress report on Africa's regional integration initiatives and to seek the support of the Ministers for ECA to undertake its planned programmes and activities on regional integration. Given its strategic role in the developmental agenda of the continent, it is important that the Ministers receive this progress report on regional integration at all future conferences.

B. Recent major decisions by the RECs

6. Africa is making some progress in its attempts to integrate. However, the results are mixed. Since the Banjul AU Summit, a few of the leadership of the RECs have also made vital decisions that seek to strengthen regional integration in the subregions.

1. ECOWAS

7. The leadership of the Economic Community of West African States (ECOWAS) met in Ouagadougou, Burkina Faso, in January 2007 and decided to transform the Executive Secretariat into a Commission, and to restructure its principal organs to fully play their role in the integration and development process of the West African subregion and to better adapt to the international environment.

8. Furthermore, to ensure the smooth introduction of the second monetary zone, which would operate in parallel to the West African CFA zone in 2009, the ECOWAS Summit called on member States to redouble their efforts to comply with the macroeconomic convergence criteria, through strict budgetary discipline and structural reforms.

9. The Summit strongly urged member States to take all necessary measures to implement the Protocol on Free Movement of Persons, the Right of Residence and Establishment.

10. Noting the importance of infrastructure in the integration and development of West African economies, the Summit mandated the ECOWAS Commission to give high priority to the development of the sector and the completion of the remaining portions of the international highways and the interconnection of railway networks with standard gauge. The Summit noted with satisfaction the tremendous progress made in the construction of the West African Gas pipeline as well as the establishment of the Power Pool system, charged with linking electricity grids of the member States.

2. COMESA

11. In November 2006, the Common Market for Eastern and Southern Africa (COMESA) held its Summit in Djibouti. The Summit commended the Comoros and Libya for joining the COMESA Free Trade Area and called on all member States not yet participating in the Free Trade Area (FTA) to join before its next Summit in May 2007. The Summit also extended the derogation to the Kingdom of Swaziland from reciprocating tariff preferences up to the end of 2008. This would enable Swaziland to complete consultations with Southern African Customs Union (SACU) partners on the country joining the COMESA FTA. As part of the preparations for COMESA to become a Customs Union in 2008, the COMESA leadership also mandated that the work on the Common External Tariff (CET) for the zone be completed by its next Summit.

12. In furtherance of its determination to create a monetary union, the Summit endorsed the decision of the Committee of Governors of COMESA Central Banks to establish a COMESA Monetary Institute, which would undertake necessary preparatory work leading to the creation of a COMESA Monetary Union in the zone. The Summit urged the COMESA Clearing House to accelerate the establishment of the Regional Payment and Settlement System (REPS) so that it becomes operational before the end of 2007.

13. With the view of deepening private sector development in the COMESA area, the Summit endorsed the creation of the Regional Investment Agency (RIA), which would spearhead the promotion of both cross-border and foreign direct investment (FDI), as well as the development of a regional business intelligence strategy in the COMESA area. It also called on the COMESA Secretariat to complete the Investment Framework Agreement, in order to speed up the establishment of the COMESA Common Investment Area (CCIA). The COMESA Secretariat was directed by the Summit to establish a comprehensive inventory of the main industrial production and manufacturing structures in all member States in order to identify existing and potential industries that can produce for the COMESA market and benefit from market and procurement opportunities.

14. In the area of food security, the Summit urged member States to harmonize national agricultural policies and align their programmes to the NEPAD Comprehensive African Agricultural Development Programme (CAADP) so as to ensure both national and regional food self-sufficiency. It also called on member States to implement trade facilitation instruments that are aimed at promoting cross-border trade of small-scale producers and traders.

15. The Summit commended the creation of the COMESA Fund, which would provide support for infrastructure development in the region. It also reaffirmed its support for the implementation of the Shire-Zambezi waterways project and urged the COMESA Secretariat to support the Government of Malawi in mobilizing funding for the project. The Summit also adopted the East African Power Pool as a COMESA specialized institution and as an avenue for the enhancement of energy interconnectivity in the region and the rest of Africa.

16. On cooperation between COMESA and other RECs, the Summit endorsed the enhanced collaboration between COMESA and EAC, IGAD and IOC in the framework of the Interregional Coordination Committee (IRCC) and the Joint Task Force between SADC, COMESA and EAC. The IRCC and the Joint Task Force met to discuss coordination and harmonization of the activities of the institutions with the objective of achieving programme harmonization and convergence so as to expedite the realization of the African Economic Community.

3. EAC

17. The East African Community (EAC) held its Summit in November 2006 in Arusha, Tanzania. The Summit decided to admit the Republic of Rwanda and Burundi as full Members of the Community, effective from 1 July 2007 after both countries have completed procedures for accession.

18. The Summit approved the establishment of EAC as a Customs Union and called for studies on the transformation of the area into a common market. It also extended preferential tariff treatment for goods originating from COMESA and SADC countries until the end of 2008. The Summit also endorsed the tripartite cooperation between EAC, COMESA and SADC in harmonizing policies and programmes of the three institutions. It further called on member States to align their investment legislation to fit the EAC Model Investment Code.

4. SADC

19. At its last Summit in Maseru, Lesotho, in August 2006, the leadership of Southern Africa Development Community (SADC) decided to make the Community a Free Trade Area (FTA) by 2008 and a Customs Union by 2010. The Summit also called on member States to resolve the

issue of their multiple memberships of RECs as it is slowing the progress towards deeper regional integration in the SADC region.

20. The Summit emphasized the need to scale up the implementation of the SADC integration agenda. In light of this, the Summit established a Task Force comprising Ministers responsible for Finance, Investment, Economic Development, Trade and Industry, to work with the SADC Secretariat to define a road map for eradicating poverty and propose measures for fast tracking the implementation of SADC integration agenda. Furthermore, to attract investment into the region, the Summit approved and signed the SADC Protocol on Finance and Investment.

21. The Summit also called for the speedy establishment of the SADC Regional Development Fund to finance development projects.

5. CEN-SAD

22. The Summit of the Community of Sahel-Saharan States (CEN-SAD) was held in Tripoli, in the Great Libyan Arab Jamahiriya in June 2006. The Summit mandated the current Chairman of CEN-SAD to work towards the merging of CEN-SAD, Arab Magreb Union (AMU), and the Economic Community of West African States (ECOWAS) in order to establish a solid and unique Economic Community capable of accelerating the creation of the African Economic Community. Other decisions taken were in the area of peace and security in the CEN-SAD zone.

C. Challenges of Regional Integration

23. Although the RECs have made some progress, Africa still faces a number of ongoing challenges. Despite their good intentions, African countries are not aggressively pushing forward the regional integration agenda. There are no enforcement mechanisms to deal with African States that decide not to adhere to protocols and treaties they are signatories to.

24. The lack of a compensation mechanism for the losers of the integration process also acts as a constraint for the full implementation of integration schemes. Tariffs and other trade taxes account for a large share of the revenues for many African countries. The potential loss of this revenue, if all the protocols of the integration process are implemented, could inhibit the integration process, even if the potential benefits of integration outweigh the cost.

25. Compared to world standards, Africa's infrastructure network is generally very weak, constraining the physical integration of the continent. Compounding the problems of the inadequate infrastructure are the numerous roadblocks on African highways, delays at border posts, long and inappropriate customs clearance and corrupt activities engaged in by some officials.

26. The multiple memberships of countries in various RECs, and the resulting overlap and duplication of functions of the RECs also act as stumbling blocks to the integration agenda. With the exception of a few countries, most African countries belong to more than one regional economic community. The existence of multiple RECs and overlapping membership in Africa's integration process therefore create unhealthy multiplication and duplication of efforts and the misuse of the continent's scarce resources.

27. Africa's macroeconomic and financial environment is very weak. It is extremely important that member States of a REC pursue convergent macroeconomic policies. However,

what is observed in most RECs are significant differences in tariffs, inflation, exchange rates, debt-to-GDP ratios, rate of money growth and other vital macroeconomic variables between member countries. Equally important is the strengthening and deepening of financial markets and institutions on the continent to support the developmental agenda of the RECs.

D. ECA's planned activities on Regional Integration

28. In response to an assessment conducted by the UN Office of Internal Oversight Services (OIOS) in 2004, ECA plans to implement its regional integration programmes largely through its five subregional offices (SROs). Furthermore, the SROs will act as interface between the headquarters of ECA, member States and the RECs. In this regard, the SROs are being strengthened to support the RECs in the implementation of their priority programmes.

29. The regional integration agenda of ECA would continue to be aligned with the broad vision and objectives of the AU and implemented through a strong partnership arrangement with the African Union Commission (AUC) and the African Development Bank (ADB). This agenda, over the next few years would include: promotion of policies and programmes that strengthen continental economic cooperation and integration in line with the Abuja Treaty and the Constitutive Act of the African Union; promotion of intra-African trade; harmonization and coordination of policies and programmes of the RECs; and promotion and development of infrastructure policies and programmes, within the framework of the NEPAD initiatives that are aimed at deepening integration of the continent.

30. To achieve these objectives and goals, ECA would pursue a number of programmes including the following:

1. Assessing Regional Integration in Africa

31. In 2004, ECA launched the first edition of its flagship publication, *Assessing Regional Integration in Africa* (ARIA). The ARIA reports allow policy makers to make strategic evidence-based decisions on regional integration. It is also a tool for monitoring and tracking progress in achieving integration in key sectors at the subregional and regional levels.

32. In July 2006 at the African Union Summit in Banjul, the Gambia, ARIA II was launched. The report, which was published in collaboration with the African Union Commission, focused on the need to rationalize the RECs. It proposes a number of scenarios for the rationalization of the RECs. The main benefit of full rationalization is that the regional economic communities become strengthened as overlapping functions of intergovernmental organizations are eliminated.

33. The success of regional integration also hinges critically on member countries pursuing convergent macroeconomic policies. Misalignments of tariffs, inflation, exchange rates, debt-to-GDP ratios, rate of money growth and other vital macroeconomic variables between member countries would be disruptive to the regional integration process. In addition, these misalignments could lead to rent-seeking activities by government and private individuals that could stifle legitimate investment opportunities. This could contribute to the demise of the economy of a member country, weakening the whole integration process. It is therefore imperative that the process of strengthening regional integration includes guidelines for the convergence of macroeconomic and trade policies of the entire regional space so as to strengthen the overall regional integration agenda.

34. Strengthening and deepening of Africa's financial markets and institutions are also essential for mobilizing the financial resources needed to finance integration projects such as infrastructure. These institutions also enhance the payment system and contribute to facilitating trade within and outside the regional communities. In addition to improving the financial markets, efforts must be made to encourage the RECs to establish development banks in their regions to assist member countries in financing infrastructure projects. However, the integration of the financial markets in Africa requires the harmonization of national policies and procedures governing these markets and institutions across member countries.

35. In light of the above, ARIA III, to be published in 2007, would focus on the achievements of RECs in the areas of monetary cooperation and macroeconomic convergence. ARIA III would be structured in three parts: *Theory, Analysis and Policy recommendations*. The first part of the report would use economic theory to explain why macroeconomic convergence and financial integration are very important for strengthening Africa's regional integration agenda. The second part of the report would use economic analysis to assess where African RECs and member States are on macroeconomic convergence and also test if the financial markets are integrated. The third and final part of the report would offer policy options on how the RECs and member States could pursue programmes towards macroeconomic convergence and financial integration.

2. Review of the Abuja Treaty

36. Based on a decision by the AU Summit in July 2006, in Banjul, the Gambia, ECA, in collaboration with the African Union Commission, would review the Abuja Treaty, taking into account the Sirte Declaration of September 9, 1999 (9.9.99) and the Constitutive Act, and provide a timetable for the implementation of the various stages of integration by the RECs. The findings of the review would be presented at the July 2007 AU Summit in Accra, Ghana. In addition, given that the Accra Summit would focus on the debate of "African Union Government," ECA would work with the African Union Commission to prepare a number of papers to support the African Union leadership in their deliberation.

3. Promoting intra-African Trade through stronger RECs

37. One of the expected outcomes of deeper integration in Africa is the strengthening of intra-African trade. Despite the trade liberation schemes of the RECs, intra-African trade is still very low, accounting for about 10 per cent of the value of total exports. Comparing other regional blocs outside Africa, data from UNCTAD statistical manual (2004) shows that trade within the European Union accounted for 60 per cent of world trade on average. The same applies for the countries of the Latin American Free Trade Agreement (ALENA) area, whose intraregional trade accounted for 58 per cent in 2004. In the case of the Association of South East Asian Nations (ASEAN), their internal trade slightly surpassed the 20 per cent level attained in total exports from the area. Intra-community trade within the Southern American Common Market (MERCOSUR) was in the range of 20 per cent of total exports from the area.

38. With the view of facilitating trade within the continent, ECA would, through the SROs, support the regional economic communities in their transformation into either Free-trade Zones or Customs Union or Common Market. In addition, ECA would work with the RECs on: harmonization and coordination of trade policies and programmes; improving trade facilitation; and establishment of PTAs/FTAs between the RECs. These undertakings would contribute immensely to the creation of the African Economic Community enshrined in the Abuja Treaty.

4. Technical assistance on capacity-building and cooperation

39. ECA will provide technical assistance to member States, the AU and the RECs in building their capacities to implement the Abuja Treaty and the integration objectives of NEPAD as well as assisting RECs to integrate their programmes towards establishing the African Economic Community (AEC). ECA, through the SRO-West Africa, will provide the platform for supporting the economic cooperation and integration activities of CEN-SAD while the SRO-Central Africa will lead in providing support in transforming the *Commission Internationale du Bassin Congo-Obangui-Shanga* (CICOS) into a more effective organization.

5. Peer-Learning Group on natural resources management

40. ECA will establish a Peer-Learning Group on natural resources management. This would act as a forum for policy makers to share experiences and identify best practices in this area. This Peer-Learning Group will bring together natural resources development practitioners from government, the legislature, private sector, academia and civil society to sensitize them on the contribution of natural resources to long-term economic development and growth. It will also provide them with tools for policy design and implementation, and enhance their knowledge and capacity on natural resources issues.

6. Infrastructure Initiatives

41. NEPAD has launched a new Spatial Development Initiative (SDI) to scale up the delivery of infrastructure services including a review of policy, legal and regulatory frameworks. ECA would align its programmes and activities to NEPAD's infrastructure initiatives by providing strategic support with the review of existing feasibility studies in transport, energy, water resources, and natural resources aimed at promoting regional integration. Working through the five subregional offices, ECA would work with the RECs to harmonize and coordinate infrastructure programmes and services in all the subregions. The Commission would provide technical assistance in support of the East African Power Pool and *Electricité des Grands Lacs* (EGL) and SINELAC in East Africa. Support will also be given for the development of a financing mechanism for infrastructure projects in Central Africa and for energy initiatives in North Africa and Southern Africa.

42. ECA will continue to champion the strengthening of air transport initiatives on the continent. The Commission would support the African Union Commission, RECs, member States, African Civil Aviation Commission (AFCAC) and African Airlines Association (AFRAA) to monitor progress on the full implementation of the Yamoussoukro Decision on the liberalization of the African air transport market as well as issues on the safety and security of air transport. At the subregional level, ECA will work with the ECOWAS Commission to implement its transport infrastructure programmes, and with Economic Community of Central African States (ECCAS), Central African Economic and Monetary Community (CEMAC) and member States to improve air transport connectivity in Central Africa. In Eastern Africa, the Commission will provide technical support for the management of transport corridors, while support will be given to the development of integrated transport plans and policies in North Africa.

7. Enhancing effective development and management of water resources

43. ECA will work with the African Union Commission, the RECs, and member States to develop and manage water resources by promoting the implementation of the *African Water Vision 2025*. The Commission will therefore provide technical assistance to member States, River Basin Organizations on integrated river basin and watershed management strategies and plans and publish the biennial African Water Development Report (AWDR) as an input to the UN World Water Development Report. ECA will also help strengthen human and institutional capacities for implementing water-related initiatives including the African Water Information Clearing House (AWICH) and the Pan-African Implementation and Partnership Conference on Water (PANAFCON).

44. In Central and Southern Africa, ECA will help prepare studies on the sustainable and efficient management of shared waterways while in East Africa, it will help with the preparation of a comprehensive Development Strategy and Action Plan for Sustainable Economic Development of the Lake Victoria Basin and of the Great Lakes river basin. In North Africa, the Commission will promote the use of market incentives to preserve biodiversity through an action plan for the management of water and the environment.

E. Way Forward

45. This note presents an update on the regional integration agenda of ECA, which is strategically aligned to the broad vision and objectives of the African Union. In partnership with the African Union Commission, the African Development Bank and the Regional Economic Communities, ECA is determined to pursue a number of programmes and activities to strengthen and advance the continent's integration agenda.

Issues for consideration:

- Support for the publication of the report on *Assessing Regional Integration in Africa*: The need for ECA to continue its analysis and assessment of progress in regional integration on the continent and publish its findings through its flagship report, drawing on the experiences in the subregions to allow policy makers make strategic evidence-based decisions on regional integration.
- Support to mainstreaming regional integration in national policies: The need for ECA to support continental efforts to sensitize government officials, parliamentarians, the private sector and civil society on the contribution of regional integration in the advancement of the continent's development agenda and for ECA to assist member States to build credible indicators to monitor and evaluate their regional integration efforts as part of their overall national development policies and programmes.
- Support for the promotion of intra-African trade: The need for ECA to support the regional economic communities in their transformation into either Free Trade Areas or Customs Union or Common Markets, with the view of accelerating the creation of the African Economic Community as enshrined in the Abuja Treaty and the need to encourage the establishment of inter-REC FTAs, supported by, for example, studies on the consequences of CEN-SAD signing an FTA with ECOWAS or an FTA between SADC and COMESA.

- Support for the Financing Infrastructure: The need for ECA, in collaboration with the African Union and the African Development Bank, to work on alternative sources of financing Africa's massive infrastructure scaling-up needs, estimated at over US\$ 250 billion for the next 10 years, given that funding from the World Bank, the EU and other bilateral and multilateral partners would not be sufficient to meet these needs.
- Support for establishing dispute resolution mechanism: The need for ECA, in collaboration with the AUC and other partners, to provide an appropriate framework for dispute resolution for the AU, RECs and other integration arrangements, given that most of the cases before the International Court of Justice (ICJ) are African issues, a fact explained in part by the absence of a mechanism for resolving conflicts in most of the regional integration agreements and protocols.